

**MOUNT AYR COMMUNITY SCHOOL DISTRICT**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

June 30, 2004

**DRAFT COPY FOR REVIEW  
AND DISCUSSION  
PURPOSES ONLY**



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MOUNT AYR COMMUNITY SCHOOL DISTRICT

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education**  
(Before September, 2003 Election)

Craig Elliott	President	2004
Mike McGhee	Vice President	2005
Beth Whitson	Board Member	2005
Rodney Shields	Board Member	2003
David Richards	Board Member	2003

**Board of Education**  
(After September, 2003 Election)

Craig Elliott	President	2004
Mike McGhee (resigned 1/12/04)	Vice President (thru 3/8/04)	2005
Beth Whitson	Vice President (as of 3/8/04)	2005
Eric Brown	Board Member (appointed 2/9/04)	2004
Rodney Shields	Board Member	2006
David Richards	Board Member	2006

**School Officials**

William Decker	Superintendent	2004
Janette Campbell	District Secretary/Treasurer	2004
James Pederson	Attorney	Indefinite



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Independent Auditor's Report

To the Board of Education  
Mount Ayr Community School District  
Mount Ayr, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District, Mount Ayr, Iowa, and its aggregate discretely presented component units as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District and its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Mount Ayr Community School District adopted Governmental Accounting Standards Board Statement No. 39, Determining Whether Certain Organizations Are Component Units and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Governmental Auditing Standards, we have also issued our reports dated October 5, 2004, on our consideration of the Mount Ayr Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 13 and 45 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mount Ayr Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.  
Certified Public Accountants

October 5, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mount Ayr Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,384,926 in fiscal 2003 to \$6,331,793 in fiscal 2004. General Fund expenditures increased from \$6,018,707 in fiscal 2003 to \$6,095,964 in fiscal 2004. The District's General Fund balance increased from \$210,381 in fiscal 2003 to \$455,770 fiscal 2004, a 46.16% increase.
- The decrease in General Fund revenues was attributable to a decrease in state aid due to a decline in student enrollment and reduced state revenues. The increase in expenditures was due primarily to unanticipated expenditures in the instructional area of the budget.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Mount Ayr Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Mount Ayr Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Mount Ayr Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-Major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

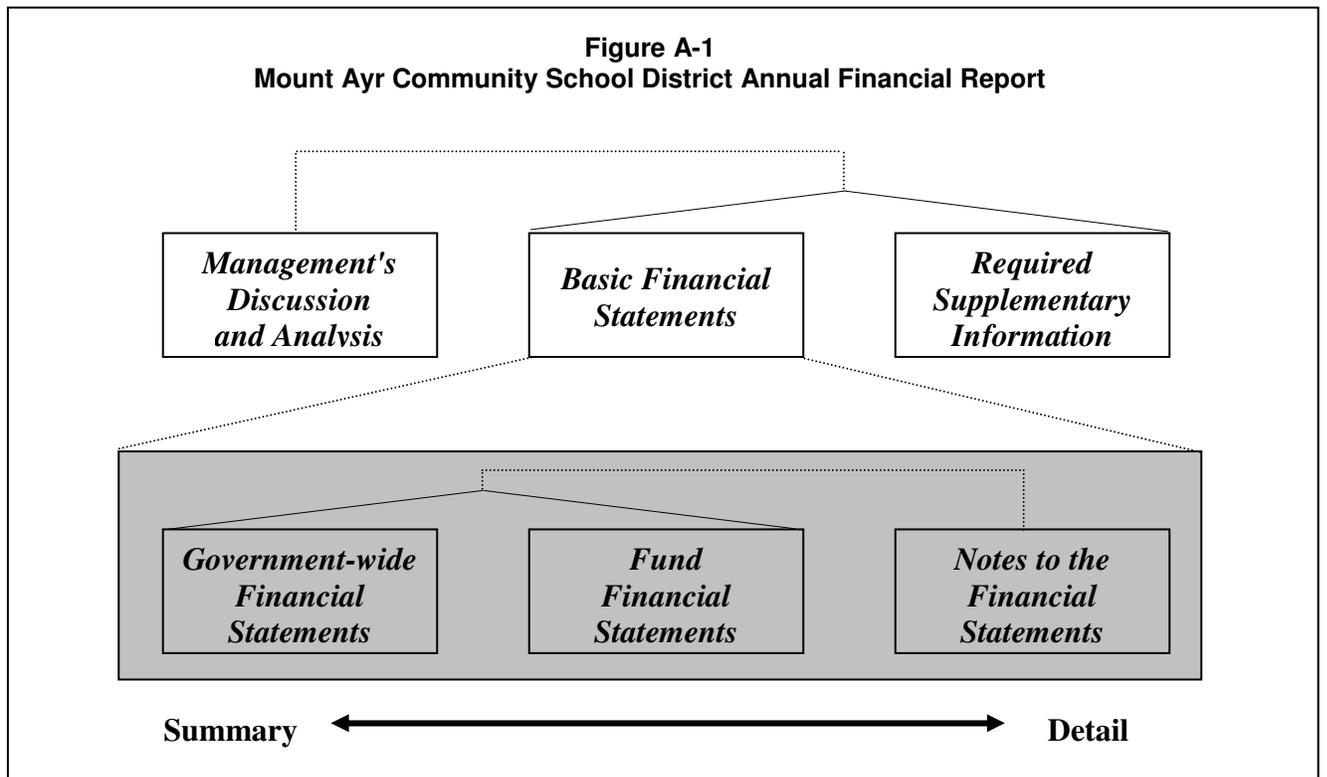


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2  
Major Features of the Government-Wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all

of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental Activities		Business type activities		Total		Total Change
	June 30, 2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 5,309	5,238	76	70	5,385	5,308	1.5%
Capital assets	6,916	7,274	33	35	6,949	7,309	-4.9%
<b>Total assets</b>	<b>12,225</b>	<b>12,512</b>	<b>109</b>	<b>105</b>	<b>12,334</b>	<b>12,617</b>	<b>-2.2%</b>
Long-term debt obligations	246	284	-	-	246	284	-13.4%
Other liabilities	4,605	4,748	20	21	4,625	4,769	-3.0%
<b>Total liabilities</b>	<b>4,851</b>	<b>5,032</b>	<b>20</b>	<b>21</b>	<b>4,871</b>	<b>5,053</b>	<b>-3.6%</b>
Net assets							
Invested in capital assets, net of related debt	6,726	7,075	33	35	6,759	7,110	-4.9%
Restricted	284	342	-	-	284	342	-17.0%
Unrestricted	364	64	56	49	420	113	271.7%
<b>Total net assets</b>	<b>\$ 7,374</b>	<b>7,481</b>	<b>89</b>	<b>84</b>	<b>7,463</b>	<b>7,565</b>	<b>-1.3%</b>

The District's combined net assets decreased by nearly 1.3%, or approximately \$102,000 over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$58,000, or 17% over the prior year. The decrease was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints by debt covenants, enabling legislation or other legal requirements increased approximately \$300,000, or 271.7%.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

<b>Figure A-4</b>			
<b>Changes in Net Assets</b>			
<b>(expressed in thousands)</b>			
	<b>Govern- mental Activities</b>	<b>Business type Activities</b>	<b>Total School District</b>
Revenues:			
Program revenues:			
Charges for service and sales	\$ 786	153	939
Operating grants, contributions and restricted interest	912	155	1,067
Capital grants, contributions and restricted interest	-	-	-
General revenues:			
Property tax	2,224	-	2,224
Local option sales and services tax	153	-	153
Unrestricted states grants	2,752	-	2,752
Unrestricted investment earnings	29	-	29
Other	29	-	29
Total revenues	<u>6,885</u>	<u>308</u>	<u>7,193</u>
Program expenses:			
Governmental activities:			
Instruction	4,699	-	4,699
Support services	1,885	-	1,885
Non-instructional programs	21	303	324
Other expenses	387	-	387
Total expenses	<u>6,992</u>	<u>303</u>	<u>7,295</u>
Change in net assets	<u>\$ (107)</u>	<u>5</u>	<u>(102)</u>

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 94% of the total expenses.

#### Governmental Activities

Revenues for governmental activities were \$6,885,000 and expenses were \$6,992,000. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and using carryover balances.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

<b>Figure A-5</b>		
<b>Total and Net Cost of Governmental Activities</b>		
<b>(expressed in thousands)</b>		
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Instruction	4,699	3,230
Support services	1,885	1,885
Non-instructional programs	21	21
Other expenses	387	158
Totals	<u>\$ 6,992</u>	<u>5,294</u>

- The cost financed by users of the District's programs was \$786,000.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$912,000.
- The net cost of governmental activities was financed with \$2,224,000 in property and other taxes and \$2,752,000 in unrestricted state grant.

#### Business Type Activities

Revenues for business type activities were \$308,000 and expenses were \$303,000. The District's business type activities include the School Nutrition Fund and Student Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The district increased meal prices in 2002-2003. This increase has resulted in increased revenue to the School Nutrition Fund which the District will utilize in the future replacement of obsolete kitchen equipment.

#### INDIVIDUAL FUND ANALYSIS

As previously noted, the Mount Ayr Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$750,803, above last year's ending fund balances of \$491,321. The primary reason for the increase in combined fund balances in fiscal 2004 is due to an Instructional Support Levy in the General Fund and Local Option Sales Tax in the Capital Projects Fund.

#### Governmental Fund Highlights

- The District's General Fund financial position has greatly improved. Growth during the year in taxation and utilization of the Local Option Sales Tax from the Capital Projects fund to pay for expenditures that would have normally been paid out of the General have contributed for an increased fund balance.
- The General Fund balance increased from \$210,381 to \$455,770, due in part to increased revenue from the implementation of an Instructional Support Levy, increased tax evaluations, and the District being able to utilize the Local Option Sales Tax to decrease General Fund expenditures.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$160,502 fiscal 2003 to \$128,153 in fiscal 2004. While revenues remained approximately the same, the District substantially increased spending from the PPEL.
- The Capital Projects Fund balance increased from \$0 to \$39,226 due to the revenues collected from the One Cent Local Option Sales Tax. The District kept expenditures down in order to have a carry over balance to add to the 2005 budget year.

#### Propriety Fund Highlights

School Nutrition Fund net assets increased from \$79,298 at June 30, 2003, to \$84,503 at June 30, 2004, representing an increase of approximately 9%. As previously noted, the District increased meal prices in 2002-2003, resulting in the increase in net assets. The District was able to match the expenditures with available revenue and maintain a balanced budget.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, The Mount Ayr Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the unanticipated expenditures and the purchase of a school bus.

The District's receipts were \$368,302 more than budgeted receipts. The most significant variance resulted from the revenue in the Capital Projects Fund.

Total expenditures were more than budgeted, due primarily to the District's budget for the General and Capital Projects Funds. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Funds. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

At June 30, 2004, the District had invested \$6.9 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 4.9% from last year.

**Figure A-6**  
**Capital Assets, net of Depreciation**  
**(expressed in thousands)**

	<b>Governmental Activities</b>		<b>Business type activities</b>		<b>Total School District</b>		<b>Total Change</b>
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2003-2004</b>
Land	\$ 84	84	-	-	84	84	0.0%
Buildings	5,596	5,768	-	-	5,596	5,768	-3.0%
Improvements other than buildings	74	82	-	-	74	82	-9.8%
Furniture and equipment	1,162	1,340	33	35	1,195	1,375	-13.1%
Totals	\$6,916	7,274	33	35	6,949	7,309	-4.9%

**Long-Term Debt**

At June 30, 2004, the district had \$292,000 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 3.2% from last year. (See Figure A-7).

**Figure A-7**  
**Outstanding Long-Term Obligations**  
**(expressed in thousands)**

	<b>June 30,</b>		<b>Change</b>
	<b>2004</b>	<b>2003</b>	
Instruction	\$ 228	199	14.6%
Non-instructional programs	64	84	-23.8%
Totals	\$ 292	283	3.2%

On October 1, 2001, the District authorized Energy Management Improvement Capital Loan Notes in the amount of \$225,000 bearing interest and maturing each year until December 1, 2011. The District also had a capital lease payable from the General Fund of \$67,000 at June 30, 2004.

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

- The financial position of the Mount Ayr Community School District will be affected a great deal by the need in the near future to either renovate, or replace, the portion of the elementary school building that was constructed in 1936. Either option will involve considerable investment. The fact that the district constituents voted to approve the one cent local option sales tax in the fall of 2003 creates a funding stream that will at least soften the impact on the levy and greatly enhance the probability of completing this project. There is still some possibility that the scope of the project could still require a vote of the district patrons to either implement the \$1.34 voter PPEL levy, or in the least desirable scenario, pass a referendum allowing the district to issue bonds to pay for construction. Although the project is likely to necessitate an increase in levy to cover either the PPEL levy or to repay bond indebtedness, the Mount Ayr Community School District currently has one of the lowest levies in this part of the state. If either option were needed to be used, the result would leave the district with a levy that will be higher than the levy rate currently, but very likely still less than districts that surround MACS.
- The Mount Ayr Community School District enrollment has declined over the last few years, but shows some signs of leveling off at the current level. After several years of repeated decreases in student population, the district increased by 11 students in 2004-2005. Under Iowa's school funding formula, district funding is highly dependent upon district enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Janette Campbell, District Secretary/Treasurer and Business Manager, Mount Ayr Community School District, 1001 East Columbus Street, Mount Ayr, IA 50854.

## **Basic Financial Statements**

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2004

	Governmental Activities	Business Type Activities	Total	Component Units
<b>Assets</b>				
Cash and cash equivalents:				
ISCAP	\$ 1,540,317	-	1,540,317	-
Other	1,352,117	33,334	1,385,451	22,351
Receivables:				
Property tax:				
Delinquent	46,617	-	46,617	-
Succeeding year	2,195,013	-	2,195,013	-
Accounts	4,681	308	4,989	-
Accrued interest:				
ISCAP	4,015	-	4,015	-
Other	245	-	245	-
Due from other governments	166,440	11,985	178,425	-
Inventories	-	31,548	31,548	-
Capital assets, net of accumulated depreciation (note 3)	6,915,912	32,672	6,948,584	-
<b>Total assets</b>	<b>12,225,357</b>	<b>109,847</b>	<b>12,335,204</b>	<b>22,351</b>
<b>Liabilities</b>				
Accounts payable	126,135	-	126,135	-
Salaries and benefits payable	665,405	20,500	685,905	-
Other payables	14,601	-	14,601	-
Accrued interest payable	848	-	848	-
Deferred revenue:				
Succeeding year property tax	2,195,013	-	2,195,013	-
ISCAP warrants payable	1,531,000	-	1,531,000	-
ISCAP accrued interest payable	6,088	-	6,088	-
Long-term liabilities (note 4):				
Portion due within one year:				
Capital notes payable	20,433	-	20,433	-
Obligation under capital lease	25,939	-	25,939	-
Early retirement	20,400	-	20,400	-
Portion due after one year:				
Capital notes payable	159,287	-	159,287	-
Obligation under capital lease	22,454	-	22,454	-
Early retirement	63,900	-	63,900	-
<b>Total liabilities</b>	<b>4,851,503</b>	<b>20,500</b>	<b>4,872,003</b>	<b>-</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	6,726,177	32,672	6,758,849	-
Restricted for:				
Management levy	63,956	-	63,956	-
Physical plant and equipment levy	128,153	-	128,153	-
Other special revenue purposes	63,698	-	63,698	-
Other	27,815	-	27,815	-
Unrestricted	364,055	56,675	420,730	22,351
<b>Total net assets</b>	<b>\$ 7,373,854</b>	<b>89,347</b>	<b>7,463,201</b>	<b>22,351</b>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>			
Instruction:			
Regular instruction	\$ 2,628,272	367,817	437,657
Special instruction	1,282,699	162,859	213,925
Other instruction	787,583	254,894	31,369
	<u>4,698,554</u>	<u>785,570</u>	<u>682,951</u>
Support Service:			
Student services	150,121	-	-
Instructional staff services	221,478	-	-
Administration services	630,974	-	-
Operating and maintenance of plant services	468,365	-	-
Transportation services	350,321		
Central support services	54,662		
Other support services	8,845	-	-
	<u>1,884,766</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>20,727</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	145,579	-	-
Long-term debt interest	12,499	-	-
AEA flowthrough	228,706	-	228,706
Depreciation (unallocated)*	-	-	-
	<u>386,784</u>	<u>-</u>	<u>228,706</u>
Total governmental activities	6,990,831	785,570	911,657
<b>Business type activities:</b>			
Non-instructional programs:			
Nutrition services	300,638	150,955	154,806
Other enterprise services	1,590	1,751	-
Total business type activities	<u>302,228</u>	<u>152,706</u>	<u>154,806</u>
Total Primary Government	<u>\$ 7,293,059</u>	<u>938,276</u>	<u>1,066,463</u>
<b>Component Units:</b>			
Program expense	\$ 12,348	-	5,602
Management and general expense	320	-	-
Fund raising expense	11,602	-	24,914
Total component units	<u>\$ 24,270</u>	<u>-</u>	<u>30,516</u>

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business Type Activities	Total	Component Units
(1,822,798)	-	(1,822,798)	-
(905,915)	-	(905,915)	-
(501,320)	-	(501,320)	-
(3,230,033)	-	(3,230,033)	-
(150,121)	-	(150,121)	-
(221,478)	-	(221,478)	-
(630,974)	-	(630,974)	-
(468,365)	-	(468,365)	-
(350,321)	-	(350,321)	-
(54,662)	-	(54,662)	-
(8,845)	-	(8,845)	-
(1,884,766)	-	(1,884,766)	-
(20,727)	-	(20,727)	-
(145,579)	-	(145,579)	-
(12,499)	-	(12,499)	-
-	-	-	-
-	-	-	-
(158,078)	-	(158,078)	-
(5,293,604)	-	(5,293,604)	-
-	5,123	5,123	-
-	161	161	-
-	5,284	5,284	-
(5,293,604)	5,284	(5,288,320)	-
-	-	-	(6,746)
-	-	-	(320)
-	-	-	13,312
-	-	-	6,246

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2004

**General Revenues:**

Totals from pages 16 and 17	\$	7,293,059	938,276	1,066,463
Property tax levied for:				
General purposes				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Gifts to Mount Ayr Community School District				
Total general revenues				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				

\* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

Exhibit B

(5,293,604)	5,284	(5,288,320)	6,246
2,174,693	-	2,174,693	-
49,405	-	49,405	-
152,531	-	152,531	-
2,751,773	-	2,751,773	-
28,719	82	28,801	20
28,883	-	28,883	-
-	-	-	(3,697)
<hr/>			
5,186,004	82	5,186,086	(3,677)
<hr/>			
(107,600)	5,366	(102,234)	2,569
<hr/>			
7,481,454	83,981	7,565,435	19,782
<hr/>			
\$ 7,373,854	89,347	7,463,201	22,351
<hr/> <hr/>			

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004

	General	Capital Projects	Nonmajor Special Revenue	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP	\$ 1,540,317	-	-	1,540,317
Other	1,095,941	833	255,343	1,352,117
Receivables:				
Property tax:				
Current year delinquent	43,760	-	2,857	46,617
Succeeding year	2,105,013	-	90,000	2,195,013
Accounts	2,029	-	2,652	4,681
Accrued interest:				
ISCAP	4,015	-	-	4,015
Other	189	25	31	245
Due from other governments	128,072	38,368	-	166,440
Inventories	-	-	-	-
<b>Total assets</b>	<b>\$ 4,919,336</b>	<b>39,226</b>	<b>350,883</b>	<b>5,309,445</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 121,059	-	5,076	126,135
Salaries and benefits payable	665,405	-	-	665,405
Early retirement payable	20,400	-	-	20,400
ISCAP warrants payable	1,531,000	-	-	1,531,000
ISCAP accrued interest payable	6,088	-	-	6,088
Other payables	14,601	-	-	14,601
Deferred revenue:				
Succeeding year property tax	2,105,013	-	90,000	2,195,013
Other	-	-	-	-
Capital loan note	-	-	-	-
Total liabilities	4,463,566	-	95,076	4,558,642
Fund balances:				
Reserved for:				
TAG	27,815	-	-	27,815
Phase III	-	-	-	-
Unreserved	427,955	39,226	255,807	722,988
Total fund balances	455,770	39,226	255,807	750,803
<b>Total liabilities and fund balances</b>	<b>\$ 4,919,336</b>	<b>39,226</b>	<b>350,883</b>	<b>5,309,445</b>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 June 30, 2004

<b>Total fund balances of governmental funds (pg. 20)</b>	\$ 750,803
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***Amounts reported for governmental activities in the statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,915,912
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(848)
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Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(292,013)
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<b>Net assets of governmental activities (pg. 15)</b>	<u><u>\$ 7,373,854</u></u>
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See notes to financial statements.

Exhibit E

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 Year ended June 30, 2004

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
<b>Revenues:</b>					
Local sources:					
Local tax	\$ 2,091,727	-	152,531	132,371	2,376,629
Tuition	468,609	-	-	-	468,609
Other	106,199	-	25	261,057	367,281
Intermediate sources	19,491	-	-	-	19,491
State sources	3,374,433	-	-	120	3,374,553
Federal sources	271,334	-	-	-	271,334
<b>Total revenues</b>	<b>6,331,793</b>	<b>-</b>	<b>152,556</b>	<b>393,548</b>	<b>6,877,897</b>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular instruction	2,317,112	-	-	66,164	2,383,276
Special instruction	1,271,789	-	-	-	1,271,789
Other instruction	514,571	-	-	243,992	758,563
	<b>4,103,472</b>	<b>-</b>	<b>-</b>	<b>310,156</b>	<b>4,413,628</b>
Support services:					
Student services	145,904	-	-	2,144	148,048
Instructional staff services	200,521	-	-	2,629	203,150
Administration services	622,302	-	-	9,326	631,628
Operation and maintenance of plant services	447,175	-	-	4,607	451,782
Transportation services	288,136	-	-	-	288,136
Central support services	54,662	-	-	-	54,662
Other support services	5,086	-	-	3,759	8,845
	<b>1,763,786</b>	<b>-</b>	<b>-</b>	<b>22,465</b>	<b>1,786,251</b>
Other expenditures:					
Facilities acquisition	-	-	59,519	86,060	145,579
Long-term debt:					
Principal	-	41,363	-	-	41,363
Interest and fiscal charges	-	12,448	-	-	12,448
AEA flowthrough	228,706	-	-	-	228,706
	<b>228,706</b>	<b>53,811</b>	<b>59,519</b>	<b>86,060</b>	<b>428,096</b>
<b>Total expenditures</b>	<b>6,095,964</b>	<b>53,811</b>	<b>59,519</b>	<b>418,681</b>	<b>6,627,975</b>
Excess (deficiency) of revenues over (under) expenditures	235,829	(53,811)	93,037	(25,133)	249,922
Other financing sources (uses):					
Transfers in	-	53,811	-	-	53,811
Transfers out	-	-	(53,811)	-	(53,811)
Sale of equipment	9,560	-	-	-	9,560
<b>Total other financing sources (uses)</b>	<b>9,560</b>	<b>53,811</b>	<b>(53,811)</b>	<b>-</b>	<b>9,560</b>
Net change in fund balances	245,389	-	39,226	(25,133)	259,482
Fund balances beginning of year, as restated (note 9)	210,381	-	-	280,940	491,321
Fund balances end of year	<b>\$ 455,770</b>	<b>-</b>	<b>39,226</b>	<b>255,807</b>	<b>750,803</b>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year ended June 30, 2004

**Net change in fund balances - total governmental funds (pg. 22)** \$ 259,482

***Amounts reported for governmental activities in the statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 60,268	
Depreciation expense/asset disposal	<u>(418,793)</u>	(358,525)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		41,363
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(51)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early retirement		20,400

Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets.		<u>(70,269)</u>
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<b>Change in net assets of governmental activities (pg. 19)</b>		<b><u><u>\$ (107,600)</u></u></b>
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See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 June 30, 2004

	Enterprise Funds
<b>Assets</b>	
Current assets:	
Cash and investments	\$ 33,334
Accounts receivable	308
Du Accounts	11,985
Inventories	31,548
Total current assets	77,175
Non-current assets:	
Property and equipment:	
Machinery and equipment	266,887
Accumulated depreciation	(234,215)
Total non-current assets	32,672
<b>Total assets</b>	<b>109,847</b>
<b>Liabilities</b>	
Current liabilities:	
Salaries and benefits payable	20,500
<b>Total current liabilities</b>	<b>20,500</b>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	32,672
Unrestricted	56,675
<b>Total net assets</b>	<b>\$ 89,347</b>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2004

	Enterprise Funds
Operating revenue:	
Local sources:	
Charges for services	\$ 152,706
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Depreciation	2,229
Other	298,409
Other enterprise operations:	
Other	1,590
Total operating expenses	302,228
Operating loss	(149,522)
Non-operating revenue:	
Local sources	82
State sources	6,353
Federal sources	148,453
Total non-operating revenue	154,888
Change in net assets	5,366
Net assets beginning of year	83,981
Net assets end of year	\$ 89,347

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 139,449
Cash received from miscellaneous operating activities	14,331
Cash payments to employees for services	(150,039)
Cash payments to suppliers for goods or services	(127,699)
Net cash used in operating activities	(123,958)
Cash flows from non-capital financing activities:	
State grants received	6,353
Federal grants received	121,819
Net cash provided by non-capital financing activities	128,172
Cash flows from investing activities:	
Interest on investments	82
Net increase in cash and cash equivalents	4,296
Cash and cash equivalents at beginning of year	29,038
Cash and cash equivalents at end of year	\$ 33,334
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>	
Operating loss	\$ (149,522)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Commodities used	24,771
Depreciation	2,229
Decrease in accounts receivable	1,074
(Increase) in inventories	(2,172)
(Decrease) in salaries and benefits payable	(338)
Net cash used by operating activities	\$ (123,958)
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>	
Current assets:	
Cash	\$ 33,334
Cash and cash equivalents at year end	\$ 33,334

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2004, the District received federal commodities valued at \$24,771.

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 June 30, 2004

	Agency
<b>Assets</b>	
Cash and investments	\$ 2,641
<b>Total assets</b>	2,641
<b>Liabilities</b>	
Accounts payable	2,641
<b>Total liabilities</b>	2,641
<b>Net assets</b>	\$ -

See notes to financial statements.

Exhibit K

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - COMPONENT UNITS  
June 30, 2004

	Mount Ayr Athletic Boosters	Mount Ayr Band Boosters	Total
<b>Assets</b>			
Cash and pooled investments	\$ 9,890	12,461	22,351
<b>Net Assets</b>			
Unrestricted	\$ 9,890	12,461	22,351

See notes to financial statements.

Exhibit L

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS - COMPONENT UNITS  
June 30, 2004

	Mount Ayr Athletic Boosters	Mount Ayr Band Boosters	Total
Operating revenues:			
Contributions	\$ 2,670	1,983	4,653
Membership dues	-	949	949
Fundraising	15,253	9,661	24,914
Total operating revenues	<u>17,923</u>	<u>12,593</u>	<u>30,516</u>
Operating expenses:			
Program expenses	6,312	6,036	12,348
Management and general expenses	-	320	320
Fundraising expenses	7,711	3,891	11,602
Total operating expenses	<u>14,023</u>	<u>10,247</u>	<u>24,270</u>
Operating income	<u>3,900</u>	<u>2,346</u>	<u>6,246</u>
Non-operating revenues (expenses):			
Interest income	-	20	20
Gifts to Mount Ayr Community School District	(2,369)	(1,328)	(3,697)
Total non-operating expenses	<u>(2,369)</u>	<u>(1,308)</u>	<u>(3,677)</u>
Changes in net assets	1,531	1,038	2,569
Net assets beginning of year	<u>8,359</u>	<u>11,423</u>	<u>19,782</u>
Net assets end of year	<u>\$ 9,890</u>	<u>12,461</u>	<u>22,351</u>

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**(1) Summary of Significant Accounting Policies**

The Mount Ayr Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Mount Ayr, Iowa, and the predominate agricultural territories in Ringgold and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Mount Ayr Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

These financial statements present Mount Ayr Community School District (the primary government) and its component units. The components units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

Discrete Component Units

Mount Ayr Band Boosters is a legally separate not-for-profit entity. Mount Ayr Band Boosters was established for the purpose of providing additional educational services for the benefit of Mount Ayr Community School District. Although the District does not control the timing or amount of receipts from the Mount Ayr Band Boosters, the majority of the resources that are held are used for the benefit of Mount Ayr Community School District.

Mount Ayr Athletic Boosters is a legally separate not-for-profit entity. Mount Ayr Athletic Boosters was established for the purpose of maintaining and developing the athletic facilities and departments of Mount Ayr Community School District. Although the District does not control the timing or amount of receipts from the Mount Ayr Athletic Boosters, the majority of the resources that are held are used for the benefit of Mount Ayr Community School District.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ringgold County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds consist of two Enterprise funds: School Nutrition and Student Construction. These funds are used to account for the food service operations and industrial arts student construction operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Expendable Trust Fund is used to account for assets held by the District in a trustee capacity and is accounted for in essentially the same manner as Governmental Funds.

C. Measurement Focus and Basis of Accounting

The Government-wide proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

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Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, administered by Wells Fargo Bank, to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. Wells Fargo maintains ISCAP accounts for each participating entity and provides monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investment	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$ -	-	-	-
2003-04B	1/30/2004	1/28/2005	737,992	4,015	733,000	6,088
2004-05A	6/18/2004	6/18/2005	802,325	-	798,000	-
Total			\$ 1,540,317	4,015	1,531,000	6,088

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ -	65,000	65,000	-
2003-04B	-	-	-	-
Total	\$ -	65,000	65,000	-

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.00%	2.603%
2003-04B	2.00	1.392

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (note 9)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 83,850	-	-	83,850
Construction in progress	-	-	-	-
Total capital assets not being depreciated	83,850	-	-	83,850
Capital assets being depreciated:				
Buildings	9,798,907	-	-	9,798,907
Improvements other than buildings	322,429	-	-	322,429
Furniture and equipment	2,701,760	60,268	38,018	2,724,010
Total capital assets being depreciated	12,823,096	60,268	38,018	12,845,346
Less accumulated depreciation for:				
Buildings	4,031,389	171,381	-	4,202,770
Improvements other than buildings	239,901	8,178	-	248,079
Furniture and equipment	1,361,219	235,008	33,792	1,562,435
Total accumulated depreciation	5,632,509	414,567	33,792	6,013,284
Total capital assets being depreciated, net	7,190,587	(354,299)	4,226	6,832,062
Governmental activities capital assets, net	\$ 7,274,437	(354,299)	4,226	6,915,912

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

	Balance Beginning of Year, as restated (note 9)	Increases	Decreases	Balance End of Year
<b>Business type activities:</b>				
Furniture and equipment	\$ 266,887	-	-	266,887
Less accumulated depreciation	231,986	2,229	-	234,215
Business type activities capital assets, net	\$ 34,901	(2,229)	-	32,672

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 244,595
Special	14,510
Other	29,020

Support services:

Student services	2,073
Instructional staff	20,728
Administration	4,146
Operation and maintenance of plant	16,583
Transportation	62,185
Non-instructional programs	20,727
	<u>414,567</u>

Unallocated depreciation

	<u>-</u>
Total governmental activities depreciation expense	<u>\$ 414,567</u>

Business type activities:

Food services	<u>\$ 2,229</u>
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**(5) Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Early Retirement	Capital Lease	Capital Notes	Total
Balance beginning of year	\$ 84,300	-	199,207	283,507
Additions	-	70,269	-	70,269
Reductions	20,400	21,876	19,487	61,763
Balance end of year	\$ 63,900	48,393	179,720	292,013

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Capital Loan Notes Payable

Details of the District's June 30, 2004 capital loan note indebtedness are as follows:

Period Ending June 30,	2001 Capital Loan Note			
	Interest Rate	Principal	Interest	Total
2005	4.80%	\$ 20,433	8,385	28,818
2006	4.80%	21,426	7,392	28,818
2007	4.80%	22,467	6,351	28,818
2008	4.80%	23,558	5,260	28,818
2009	4.80%	24,702	4,116	28,818
2010	4.80%	25,902	2,916	28,818
2011	4.80%	27,161	1,657	28,818
2012	4.80%	14,071	338	14,409
Total		<u>\$ 179,720</u>	<u>36,415</u>	<u>216,135</u>

Computer leases

	Year ending June 30,	
	2005	\$ 24,993
	2006	24,993
		<u>49,986</u>
Less amount representing interest		1,593
Present value of minimum lease payments		<u>\$ 48,393</u>

Early Retirement

The District offers a voluntary early retirement plan to its full-time, certified employees. Eligible employees must be at least age fifty-four by September 1, but not more than sixty-two years of age by June 1 preceding the year of retirement and employees must have completed ten years of service to the District. Employees must complete an application and an attached letter of resignation which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is the difference between the salary schedule base and the employee's placement on the salary schedule using the salary schedule in effect for the last year of employment and subject to a maximum of \$19,475 to \$36,000 per individual depending upon the individual's level of education and service to the District.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$220,761, \$219,637, and \$220,596, respectively, equal to the required contributions for each year.

**(7) Risk Management**

Mount Ayr Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Mount Ayr Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, prescription drugs, life and long-term disability.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund and Proprietary Fund at the time of payment to the risk pool. District contributions to ISEBA for the fiscal year ended June 30, 2004 were \$288,237.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$228,706 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

**(9) Accounting Change and Restatements**

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 39, Determining Whether Certain Organizations Are Component Units; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The significant change in the financial statements due to Statement No. 39 includes reporting the financial statements of the Mount Ayr Athletic Boosters and the Mount Ayr Band Boosters as discretely presented component units. Since the component units are discretely presented, there is no change in the District's previously reported net assets.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting. As of July 1, 2003 the District had no long-term liabilities.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund				Total
	General	Debt Service	Capital Projects	Nonmajor Special Revenue	
Net assets, June 30, 2003 as previously reported	\$ 210,381	-	-	280,940	491,321
Net assets, July 1, 2003, as restated for governmental funds	\$ 210,381	-	-	280,940	491,321
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$5,632,509					7,274,439
Long-term liabilities:					
Bonds and notes				199,208	
Early retirement				84,300	(283,508)
Accrued interest payable					(798)
Net assets, July 1, 2003, as restated					\$ 7,481,454

**Required Supplementary Information**

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES  
 IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
 FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 Year Ended June 30, 2004

	Governmental Funds- Actual	Proprietary Funds- Actual
Revenues:		
Local sources	\$ 3,145,149	153,862
Intermediate sources	19,491	-
State sources	3,378,418	6,353
Federal sources	271,334	121,819
Total revenues	<u>6,814,392</u>	<u>282,034</u>
Expenditures:		
Instruction	4,386,782	-
Support services	1,786,251	-
Noninstructional programs	-	277,738
Other expenditures	428,096	-
Total expenditures	<u>6,601,129</u>	<u>277,738</u>
Excess (deficiency) of revenues over (under) expenditures	213,263	4,296
Other financing sources, net	<u>9,560</u>	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	222,823	4,296
Balances beginning of year	<u>1,129,294</u>	<u>29,038</u>
Balances end of year	<u>\$ 1,352,117</u>	<u>33,334</u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
3,299,011	3,210,639	3,210,639	88,372
19,491	-	-	19,491
3,384,771	3,164,890	3,164,890	219,881
393,153	446,000	446,000	(52,847)
<u>7,096,426</u>	<u>6,821,529</u>	<u>6,821,529</u>	<u>274,897</u>
4,386,782	4,182,404	4,415,404	28,622
1,786,251	1,910,308	1,980,308	194,057
277,738	336,100	336,100	58,362
428,096	299,169	299,169	(128,927)
<u>6,878,867</u>	<u>6,727,981</u>	<u>7,030,981</u>	<u>152,114</u>
217,559	93,548	(209,452)	427,011
9,560	5,000	5,000	4,560
227,119	98,548	(204,452)	431,571
<u>1,158,332</u>	<u>874,124</u>	<u>874,124</u>	<u>284,208</u>
<u><u>1,385,451</u></u>	<u><u>972,672</u></u>	<u><u>669,672</u></u>	<u><u>715,779</u></u>

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	Revenues	\$ 6,814,392	63,505
Expenditures	6,601,129	26,846	6,627,975
Net	213,263	36,659	249,922
Other financing sources	9,560	-	9,560
Beginning fund balances	1,129,294	(637,973)	491,321
Ending fund balances	\$ 1,352,117	(601,314)	750,803

	Proprietary Funds		
	Enterprise		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 282,034	25,560	307,594
Expenses	277,738	24,490	302,228
Net	4,296	1,070	5,366
Beginning net assets	29,038	156,987	83,981
Ending net assets	\$ 33,334	158,057	89,347

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the other expenditures functional area.

**Other Supplementary Information**

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 62,174	65,723	127,446	255,343
Receivables:				
Property tax:				
Current year delinquent	1,761	-	1,096	2,857
Succeeding year	90,000	-	-	90,000
Accounts	-	2,652	-	2,652
Accrued interest	21	-	10	31
<b>Total assets</b>	<b>\$ 153,956</b>	<b>68,375</b>	<b>128,552</b>	<b>350,883</b>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	\$ -	4,677	399	5,076
Deferred revenue:				
Succeeding year property tax	90,000	-	-	90,000
Total liabilities	90,000	4,677	399	95,076
Fund equity:				
Fund balances:				
Unreserved fund balances	63,956	63,698	128,153	255,807
<b>Total liabilities and fund equity</b>	<b>\$ 153,956</b>	<b>68,375</b>	<b>128,552</b>	<b>350,883</b>

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 Year ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax:				
Property tax	\$ 79,300	-	47,129	126,429
Utility tax replacement excise tax	3,661	-	2,273	5,934
Mobile home tax	5	-	3	8
	<u>82,966</u>	<u>-</u>	<u>49,405</u>	<u>132,371</u>
Other local sources:				
Interest on investments	1,376	128	4,659	6,163
Student activities	-	254,894	-	254,894
	<u>1,376</u>	<u>255,022</u>	<u>4,659</u>	<u>261,057</u>
	<u>84,342</u>	<u>255,022</u>	<u>54,064</u>	<u>393,428</u>
State sources:				
Revenue in lieu of taxes - military credit	74	-	46	120
	<u>74</u>	<u>-</u>	<u>46</u>	<u>120</u>
Total revenues	<u>84,416</u>	<u>255,022</u>	<u>54,110</u>	<u>393,548</u>
Expenditures:				
Instruction:				
Regular instruction:				
Benefits	3,322	-	-	3,322
Services	62,842	-	-	62,842
	<u>66,164</u>	<u>-</u>	<u>-</u>	<u>66,164</u>
Co-curricular instruction:				
Services	-	63,941	-	63,941
Supplies	-	142,749	-	142,749
Property	-	37,302	-	37,302
	<u>-</u>	<u>243,992</u>	<u>-</u>	<u>243,992</u>
Total instruction	<u>66,164</u>	<u>243,992</u>	<u>-</u>	<u>310,156</u>
Support Services:				
Student support services:				
Benefits	108	-	-	108
Services	2,036	-	-	2,036
	<u>2,144</u>	<u>-</u>	<u>-</u>	<u>2,144</u>
Instructional staff support services:				
Benefits	132	-	-	132
Services	2,497	-	-	2,497
	<u>2,629</u>	<u>-</u>	<u>-</u>	<u>2,629</u>

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 Year ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Expenditures (continued):				
Support Services (continued):				
General administration:				
Benefits	170	-	-	170
Services	3,210	-	-	3,210
	<u>3,380</u>	<u>-</u>	<u>-</u>	<u>3,380</u>
Building administration:				
Benefits	250	-	-	250
Services	4,735	-	-	4,735
	<u>4,985</u>	<u>-</u>	<u>-</u>	<u>4,985</u>
Business administration:				
Benefits	48	-	-	48
Services	913	-	-	913
	<u>961</u>	<u>-</u>	<u>-</u>	<u>961</u>
Plant operation and maintenance:				
Benefits	211	-	-	211
Services	3,997	-	399	4,396
	<u>4,208</u>	<u>-</u>	<u>399</u>	<u>4,607</u>
Student transportation:				
Benefits	189	-	-	189
Services	3,570	-	-	3,570
	<u>3,759</u>	<u>-</u>	<u>-</u>	<u>3,759</u>
Total support services	<u>22,066</u>	<u>-</u>	<u>399</u>	<u>22,465</u>
Other expenditures:				
Facilities acquisition:				
Property	-	-	86,060	86,060
	<u>-</u>	<u>-</u>	<u>86,060</u>	<u>86,060</u>
Total expenditures	<u>88,230</u>	<u>243,992</u>	<u>86,459</u>	<u>418,681</u>
Excess (deficiency) of revenues over (under) expenditures	(3,814)	11,030	(32,349)	(25,133)
Fund balance beginning of year, as restated	<u>67,770</u>	<u>52,668</u>	<u>160,502</u>	<u>280,940</u>
Fund balance end of year	<u>\$ 63,956</u>	<u>63,698</u>	<u>128,153</u>	<u>255,807</u>

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 June 30, 2004

	Enterprise Funds		
	School Nutrition	Student Construction	Total
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 28,490	4,844	33,334
Accounts receivable	308	-	308
Due from other governments	11,985	-	11,985
Inventories	31,548	-	31,548
Total current assets	<u>72,331</u>	<u>4,844</u>	<u>77,175</u>
Non-current assets:			
Property and equipment:			
Machinery and equipment	266,887	-	266,887
Accumulated depreciation	(234,215)	-	(234,215)
Total non-current assets	<u>32,672</u>	<u>-</u>	<u>32,672</u>
<b>Total assets</b>	<u>105,003</u>	<u>4,844</u>	<u>109,847</u>
<b>Liabilities</b>			
Current liabilities:			
Salaries and benefits payable	20,500	-	20,500
<b>Total current liabilities</b>	<u>20,500</u>	<u>-</u>	<u>20,500</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	32,672	-	32,672
Unrestricted	51,831	4,844	56,675
<b>Total net assets</b>	<u>\$ 84,503</u>	<u>4,844</u>	<u>89,347</u>

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2004

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Operating revenue:			
Local sources:			
Other local sources:			
Food service sales:			
Lunch	\$ 84,105	-	84,105
Breakfast	14,817	-	14,817
Ala carte	29,352	-	29,352
Adult	10,101	-	10,101
Miscellaneous	12,580	1,751	14,331
Total operating revenues	<u>150,955</u>	<u>1,751</u>	<u>152,706</u>
Operating expenses:			
Non-instructional programs:			
Food services operations:			
Salaries	128,199	-	128,199
Benefits	21,502	-	21,502
Services	575	-	575
Supplies	4,376	-	4,376
Food supplies	132,149	-	132,149
Other	11,608	-	11,608
Depreciation	2,229	-	2,229
	<u>300,638</u>	<u>-</u>	<u>300,638</u>
Other enterprise operations:			
Property	-	1,590	1,590
	<u>-</u>	<u>1,590</u>	<u>1,590</u>
Total operating expenses	<u>300,638</u>	<u>1,590</u>	<u>302,228</u>
Operating income (loss)	(149,683)	161	(149,522)
Non-operating revenue:			
Interest on investments	82	-	82
State lunch and breakfast program claims	6,353	-	6,353
National School Lunch Program	96,698	-	96,698
School Breakfast Program	26,984	-	26,984
Food distribution	24,771	-	24,771
Total non-operating revenue	<u>154,888</u>	<u>-</u>	<u>154,888</u>
Changes in net assets	5,205	161	5,366
Net assets beginning of year	<u>79,298</u>	<u>4,683</u>	<u>83,981</u>
Net assets end of year	<u>\$ 84,503</u>	<u>4,844</u>	<u>89,347</u>

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year ended June 30, 2004

	Enterprise Funds		
	School Nutrition	Student Construction	Total
<b>Cash flows from operating activities:</b>			
Cash received from sale of lunches and breakfasts	\$ 139,449	-	139,449
Cash received from miscellaneous operating activities	12,580	1,751	14,331
Cash payments to employees for services	(150,039)	-	(150,039)
Cash payments to suppliers for goods or services	(126,109)	(1,590)	(127,699)
Net cash provided (used) by operating activities	<u>(124,119)</u>	<u>161</u>	<u>(123,958)</u>
<b>Cash flows from non-capital financing activities:</b>			
State grants received	6,353	-	6,353
Federal grants received	121,819	-	121,819
Net cash provided by non-capital financing activities	<u>128,172</u>	<u>-</u>	<u>128,172</u>
<b>Cash flows from investing activities:</b>			
Interest on investments	82	-	82
Net increase in cash and cash equivalents	4,135	161	4,296
Cash and cash equivalents at beginning of year	24,355	4,683	29,038
Cash and cash equivalents at end of year	<u>\$ 28,490</u>	<u>4,844</u>	<u>33,334</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (149,683)	161	(149,522)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities used	24,771	-	24,771
Depreciation	2,229	-	2,229
Decrease in accounts receivable	1,074	-	1,074
(Increase) in inventories	(2,172)	-	(2,172)
(Decrease) in salaries and benefits payable	(338)	-	(338)
Net cash provided (used) by operating activities	<u>\$ (124,119)</u>	<u>161</u>	<u>(123,958)</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>			
Current assets:			
Cash	<u>\$ 28,490</u>	<u>4,844</u>	<u>33,334</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2004, the District received federal commodities valued at \$24,771.

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash	\$ 1,577	2,641	1,577	2,641
<b>Liabilities</b>				
Accounts payable	\$ 1,577	2,641	1,577	2,641

See accompanying independent auditor's report.

## MOUNT AYR COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Adult Education	\$ 3,151	2,911	2,210	3,852
Alternative School	859	29	-	888
Art Club	711	775	1,066	420
Athletics:				
Football	7,681	19,468	19,494	7,655
Volleyball	(2,397)	7,356	6,628	(1,669)
Wrestling	(32)	9,949	10,171	(254)
Boys' basketball	5,317	11,294	7,268	9,343
Girls' basketball	4,246	9,567	7,474	6,340
Boys' track	(7,426)	6,691	2,488	(3,223)
Girls' track	(2,904)	5,744	5,750	(2,910)
Golf	(690)	2,424	3,179	(1,446)
Baseball	(6,387)	12,262	10,849	(4,974)
Softball	(2,429)	11,504	9,449	(374)
Miscellaneous	(6,174)	4,958	3,206	(4,422)
Ayrian	473	11,874	9,096	3,251
Band	4,105	8,563	12,034	634
Charity Counts	111	-	-	111
Cheerleaders	278	7,926	7,015	1,189
Class:				
2005	1,854	1,864	3,421	297
2006	565	13,408	12,036	1,937
2007	176	-	125	51
2008	1,705	-	582	1,123
Drama Club	2,385	4,803	6,172	1,016
Drill Team	1,550	5,887	7,099	338
Elementary Library	2,468	20	647	1,841
Elementary Student Council	2,469	7,546	7,342	2,674
Future Farmers of America	19,862	41,679	42,791	18,750
Future Homemakers of America	549	883	1,058	374
F.T.A.	423	1,233	716	940
Gifts/Memorials	3,849	2,394	475	5,768
Industrial Arts	559	1,388	1,480	467
Jr. High School	1,444	17,624	15,852	3,216
Library Club	1,135	1,859	2,412	582
Miscellaneous	(645)	539	465	(571)
Office education (BPA)	2,623	-	-	2,623
Resale	570	4,658	5,578	(350)
S.A.D.D.	860	494	415	939
Science Club	57	2,000	1,251	806
Elementary Yearbook	1,947	1,617	3,217	348

## MOUNT AYR COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
International Club	1,576	3,162	4,597	140
Special Olympics	851	1,355	1,506	700
Student Council	164	3,419	2,945	638
Vocal music	5,107	2,509	4,135	3,481
Weightlifting	72	1,386	300	1,158
Total	\$ 52,668	255,022	243,992	63,698

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 2,376,629	2,377,295	2,024,160	1,931,230
Tuition	468,609	545,882	546,584	468,968
Other	367,281	450,124	417,165	453,207
Intermediate sources	19,491	23,885	45,615	39,180
State sources	3,374,553	3,335,123	3,411,878	3,531,804
Federal sources	271,334	260,386	289,085	307,389
Total	<u>\$ 6,877,897</u>	<u>6,992,695</u>	<u>6,734,487</u>	<u>6,731,778</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 2,383,276	2,195,590	2,318,024	2,291,952
Special instruction	1,271,789	1,330,654	1,301,817	1,331,669
Other instruction	758,563	717,350	751,655	748,319
Support services:				
Student services	148,048	142,481	187,156	180,048
Instructional staff services	203,150	256,930	208,759	243,266
Administration services	631,628	610,999	599,970	660,237
Operation and maintenance of plant services	451,782	490,606	432,079	460,168
Transportation services	288,136	268,432	311,839	274,866
Central support services	54,662	95,673	156,355	119,084
Other support services	8,845	-	-	27,560
Non-instructional programs	-	-	-	-
Other expenditures:				
Facilities acquisition	145,579	5,158	607,785	257,237
Long-term debt:				
Principal	41,363	204,463	188,912	181,858
Interest and other charges	12,448	18,409	24,708	23,494
AEA flowthrough	228,706	246,674	249,067	257,854
Total	<u>\$ 6,627,975</u>	<u>6,583,419</u>	<u>7,338,126</u>	<u>7,057,612</u>

See accompanying independent auditor's report.

**Van Maanen  
& ASSOCIATES, P.C.**

**Certified Public Accountants**

705 Main St.  
Pella, IA 50219  
641-628-3737

Independent Auditor's Combined Report on Compliance  
and on Internal Control over Financial Reporting

To the Board of Education  
Mount Ayr Community School District  
Mount Ayr, Iowa

We have audited the financial statements of the Mount Ayr Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 5, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mount Ayr Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved while IV-B-04 is a new statutory comment.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mount Ayr Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Mount Ayr Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Prior year reportable condition II-A-04 has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mount Ayr Community School District and other parties to whom Mount Ayr Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mount Ayr Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.  
Certified Public Accountants

October 5, 2004

MOUNT AYR COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2004

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**REPORTABLE CONDITIONS**

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash disbursements and bank reconciliations were done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

**Part III: Findings and Questioned Costs for Federal Awards:**

Not applicable since less than \$500,000 in federal awards.

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-04 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget - Expenditures for the year ended June 30, 2004, exceeded the amounts budgeted in the other expense functional area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure that the certified budget is not exceeded.

Conclusion - Response accepted.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2004

- IV-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-04 Business Transactions - No business transactions were noted between the District and District officials or employees.
- IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-G-04 Board Minutes - No transactions were noted requiring Board approval which had not been approved by the Board.
- IV-H-04 Certified Enrollment - No variances were noted in the basic enrollment data certified to the Department of Education.
- IV-I-04 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy.
- IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-04 Sale of Property - During the year ended June 30, 2004, the District made sales of property in accordance with Chapter 297.22 of the Code of Iowa.